

## Message Text

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PAGE 01 BUENOS 07153 131119Z  
ACTION ARA-15

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TO SECSTATE WASHDC 7419

UNCLAS BUENOS AIRES 7153

E.O. 11652: N/A  
TAGS: ALOW, EFIN, AR  
SUBJECT: ARGENTINA: INFLATION IN AUGUST

1. THE CONSUMER PRICE INDEX (CPI) ROSE 7.8 PERCENT IN AUGUST, BRINGING THE TOTAL INCREASE FOR THE FIRST EIGHT MONTHS OF 1978 TO 94.8 PERCENT AND FOR THE PRECEDING YEAR TO 177.6 PERCENT. THE BREAKDOWN OF THE CPI INCREASES BY SECTOR IN JUNE ARE AS FOLLOWS: FOOD - 9.2 CLOTHING - 5.3; HOUSING, FUEL, AND ELECTRICITY - 6.9; HOUSEHOLD FURNISHINGS AND OPERATIONS - 6.7; MEDICAL CARE - 7.1; TRANSPORTATION AND COMMUNICATIONS - 5.4; RECREATION AND EDUCATION - 6.7; AND MISCELLANEOUS - 7.9.

2. THE WHOLESALE PRICE INDEX (WPI), INCREASED 8.6 PERCENT IN AUGUST, BRINGING THE TOTAL INCREASE FOR THE FIRST EIGHT MONTHS OF 1978 TO 79.7 PERCENT AND FOR THE PAST 12 MONTHS TO 146.1 PERCENT. THE WHOLESALE PRICES OF DOMESTIC PRODUCTS ROSE 9.1 PERCENT, REFLECTING ABOVE ALL THE SHARP INCREASE IN AGRICULTURAL PRICES (UP 15.1 PERCENT). BY CONTRAST, THE WHOLESALE PRICES OF IMPORTED PRODUCTS WENT UP ONLY 1.4 PERCENT - A RESULT ATTRIBUTABLE TO THE DECELERATION IN THE RATE OF DEVALUATION IN RECENT MONTHS.

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PAGE 02 BUENOS 07153 131119Z

3. COMMENT: WHILE THE INFLATION RATE IN AUGUST WAS UP SUBSTANTIALLY OVER THE RATE THE PREVIOUS MONTH, BOTH THE CPI AND WPI INCREASES FOR THE PAST 12 MONTHS ACTUALLY DECLINED SIGNIFICANTLY (FROM 186.7 PERCENT TO 177.6 PERCENT IN THE CASE OF THE CPI AND FROM 154.9 PERCENT TO 146.1 PERCENT FOR THAT OF THE WPI). THE REASON BEING THE HIGHER RATE DURING THE SAME MONTH IN 1977. WITH ANY

LUCK, THE HIGH BASE OF INFLATION PREVAILING DURING THE LAST FEW MONTHS OF 1977 SHOULD CONTINUE TO HELP LOWER THE 12-MONTH COMULATIVE INFLATION RATE IN THE NEXT FEW MONTHS (PARTICULARLY OCTOBER).

AN INCREASE IN THE RATE OF INFLATION IN AUGUST WAS EXPECTED BECAUSE OF THE WAGE RAISES RECEIVED BY THE PRIVATE SECTOR AT THE BEGINNING OF THE MONTH (ALBEIT IN THE FORM A 25 PERCENT INCREASE IN THE "MARGIN OF FLEXIBILITY" OVER THE BASIC CONTRACT WAGE). FOOD PRICE INCREASES, HOWEVER, ALSO BEAR MAJOR RESPONSIBILITY, ACCOUNTING FOR 56 PERCENT OF THE TOTAL CPI RISE (MEAT AND FRESH VEGETABLES ALONE CONTRIBUTED 29 PERCENT OF THE ADJUSTMENT).

THE RATE OF DEVALUATION OF THE PESO IN AUGUST WAS 3.1 PERCENT, CONSIDERABLY BELOW THE INTERNAL RATE OF INFLATION. TAKING INTO ACCOUNT THE DIFFERENCES IN THE TWO RATES IN THE EARLIER MONTHS OF THE YEAR, THE PURCHASING POWER OF THE DOLLAR IN ARGENTINA DECLINED 28.8 PERCENT DURING JANUARY-AUGUST 1978 PERIOD.

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